

THE BALDWIN COMPANY
ANNUAL REPORT TO STOCKHOLDERS

Eighty-Fifth Year Ending December 31, 1947



DIRECTORS

Lucien Wulsin
Cincinnati

Philip Wyman
Cincinnati

J. P. Thornton
Cincinnati

Geo. W. Lawrence
Cincinnati

A. J. Schoenberger
Cincinnati

OFFICERS

Lucien Wulsin

President and Treasurer

J. P. Thornton

Vice-President

Philip Wyman

Vice-President

A. J. Schoenberger

Secretary

W. H. Smith

Assistant Treasurer

R. F. Coghill

Assistant Secretary

Irwin Stumborg

Assistant Secretary

GENERAL OFFICES

Gilbert Avenue, Cincinnati

Cable Address: "Baldwinco, Cincinnati"

SUBSIDIARY COMPANY

The Baldwin Piano Company

*To the Stockholders of
The Baldwin Company:*

Cincinnati, Ohio, April 5, 1948

Sales for the year 1947 amounted to \$11,849,994.89.

After deduction of depreciation charges amounting to \$83,367.10, provision for Federal Income Taxes amounting to \$767,300.00 and provision for increases in certain reserves detailed below, totaling \$564,957.47, net profit for the year 1947 was \$496,605.60, compared with \$268,212.40 reported for the year 1946.

Consolidated Balance Sheets as of December 31, 1947 and 1946 are appended hereto. On December 31, 1947, Total Current Assets amounted to \$5,062,820.71 and Total Current Liabilities \$1,808,056.19, which is a ratio of 2.8 to 1.

During the year 1947 we spent \$668,339.14 for additions and improvements to real estate, buildings, machinery and equipment. In addition, during the year net Accounts Receivable, less Reserve for Possible Losses, increased \$869,912.20; and Net Inventories, after deduction of Reserve for Inventory Fluctuation, increased \$678,082.61. The money to pay for these improvements to plant and increase in working assets was taken from the Cash and U. S. Securities in the Company's Treasury.

There has been added to Earned Surplus during the year 1947: net profit from operations \$496,605.60, and adjustment on 1946 Federal Income Tax Accrual \$1,117.15. During the year 1947 there were deducted from Earned Surplus: regular dividends on the outstanding 6% Preferred Stock, amounting to \$9,678.00, and dividends on the Common Stock, aggregating \$1.70 per share and totaling \$227,426.00. The net result is that during the year 1947, Earned Surplus increased \$260,618.75. There has been no change in the Capital Surplus of the Company during the year 1947.

Because of the continued increases in cost of labor and material we are giving special attention to our inventories, both raw and manufactured. A year ago we reported to you, that we had set aside a special Inventory Fluctuation Reserve amounting to 25% of inventories on hand at the end of the year 1946. In view of the further rise in prices, it seemed wise to increase the percentage of Inventory Fluctuation Reserve to 30% of the inventory on hand December 31, 1947. Therefore, \$464,957.47 was charged against operations for the year 1947 and credited to Inventory Fluctuation Reserve. This Reserve amounted to \$990,846.69 on December 31, 1947.

We are continuing the development and expansion of our research activities and although we have charged the expense of our current research program

against the operations of the year, we have set aside from operations \$100,000.00 as a reserve for the cost of future research, which sum has been included with Contingency Reserve on the Balance Sheet.

In the report of a year ago, we told the Stockholders about the Baldwin Electronic Organ and its introduction to the public. During the year 1947 the Baldwin Organ has been in enlarged production, and has been meeting increasingly with enthusiastic approval from musicians, organists, churches and institutions throughout the country. However, with the continued very heavy demand for pianos, the setting aside of more factory space for organ production in our established factory buildings, has been virtually impossible. As a solution to this problem, we recently purchased a group of factory buildings, located immediately across the street from our main plant. These buildings have about 135,000 sq. ft. of floor space. However, we shall be able to use only the top floor of these buildings for the next few years, because of existing sub-leases.

We have taken immediate steps to remodel the top floor of the acquired properties for the use of the Organ Department, and hope that we shall be in operation on this floor during the second half of the current year. The rest of these buildings will be useful for other manufacturing operations, as it becomes available over the next two or three years. We believe that the purchase of this additional factory has been advantageous. It is the only sizable manufacturing space near our present plant.

Continued expansion in the volume of our accounts receivable, inventories and the requirements for the rehabilitation and alteration of the new plant will make a heavy drain on our cash resources. However, at present it is anticipated that we shall be able to take care of our cash requirements from the ordinary receipts of the business, and from bank loans made for seasonal purposes.

During the year 1947 we shipped more pianos from our factories than ever before in any one year of our history. This was accomplished in spite of many difficulties in maintaining continued steady flow of materials and supplies and reflects greatly to the credit of all our employees.

The feverish demand of the immediate post-war period is over and our business is returning to more normal conditions. Consequently, we hesitate to predict a repetition of the achievements of last year. However, with the increasing importance of music, and the making of music, in the life of the American people, we look forward to the future with confidence.

Respectfully submitted,

LUCIEN WULSIN, President

THE BALDWIN COMPANY *and Subsidiaries*

CONDENSED CONSOLIDATED BALANCE SHEET

As of December 31, 1947

| ASSETS | December 31, 1947 | December 31, 1946 |
|--|-----------------------|-----------------------|
| Cash in Bank and On Hand..... | \$ 831,610.98 | \$1,286,719.60 |
| United States Government | | |
| Obligations | 604,000.00 | 1,425,080.00 |
| Accounts Receivable | | |
| Customers' Accounts..... | \$1,728,641.88 | \$ 643,323.49 |
| Less: Dealers' Contingent Equities..... | 190,108.08 | 17,619.48 |
| | <u>\$1,538,533.80</u> | <u>\$ 625,704.01</u> |
| Less: Reserve for Possible Losses..... | 167,074.34 | 124,156.75 |
| | <u>1,371,459.46</u> | <u>501,547.26</u> |
| Inventories | \$3,302,822.30 | \$2,103,556.88 |
| Less: Reserve for Inventory Fluctuation..... | 990,846.69 | 525,889.22 |
| | <u>\$2,311,975.61</u> | <u>\$1,577,667.66</u> |
| Less: Intercompany Profit..... | 56,225.34 | —0— |
| | <u>2,255,750.27</u> | <u>1,577,667.66</u> |
| Total Current Assets..... | \$5,062,820.71 | \$4,791,014.52 |
| Plant and Equipment | | |
| Real Estate and Buildings..... | \$1,339,295.71 | \$1,019,315.60 |
| Machinery and Equipment..... | 1,681,337.13 | 1,393,441.76 |
| | <u>\$3,020,632.84</u> | <u>\$2,412,757.36</u> |
| Less: Reserve for Depreciation..... | 1,231,827.35 | 1,183,834.86 |
| | <u>1,788,805.49</u> | <u>1,228,922.50</u> |
| Other Assets | 49,861.66 | 48,431.53 |
| Deferred Charges to Future | | |
| Operations..... | 10,346.26 | 10,411.05 |
| Total Assets | <u>\$6,911,834.12</u> | <u>\$6,078,779.60</u> |

ary THE BALDWIN PIANO COMPANY
ATED BALANCE SHEETS

7 and December 31, 1946

| LIABILITIES AND CAPITAL | December 31, 1947 | December 31, 1946 |
|-------------------------------------|------------------------------|------------------------------|
| Accounts Payable..... | \$ 736,800.85 | \$ 615,423.81 |
| Accrued Expenses | 189,230.36 | 145,081.92 |
| Federal Excise Tax..... | 114,724.98 | 76,837.24 |
| Federal Income Tax..... | 767,300.00 | 492,200.00 |
| Total Current Liabilities..... | <u>\$1,808,056.19</u> | <u>\$1,329,542.97</u> |
| Deferred Credits | —0— | 7,584.05 |
| Reserve for Contingencies..... | 1,353,109.18 | 1,251,602.58 |
| Capital Stock and Surplus | | |
| Capital Stock: | | |
| 6% Cumulative Preferred Stock | | |
| Authorized 1901-1903, | | |
| Authorized and Issued 2,327 Shares, | | |
| Par Value \$100.00 Per Share, | | |
| Less 714 Shares in Treasury..... | 161,300.00 | 161,300.00 |
| Cumulative Preferred Stock | | |
| Authorized 1924, | | |
| Authorized 60,000 Shares, | | |
| Par Value \$100.00 Per Share..... | —0— | —0— |
| Common Stock, Par Value \$8.00 Per | | |
| Share, Authorized 500,000 Shares, | | |
| Issued 133,786.6 Shares..... | 1,070,292.80 | 1,070,292.80 |
| Surplus: | | |
| Capital..... | \$ 130,316.37 | \$ 130,316.37 |
| Earned..... | <u>2,388,759.58</u> | <u>2,519,075.95</u> |
| | | <u>2,128,140.83</u> |
| Total Liabilities and Capital..... | <u><u>\$6,911,834.12</u></u> | <u><u>\$6,078,779.60</u></u> |

ANALYSIS OF
CONSOLIDATED SURPLUS ACCOUNTS

Year Ended December 31, 1947

Earned Surplus:

| | | |
|-------------------------------|--|----------------|
| Balance, January 1, 1947..... | | \$2,128,140.83 |
|-------------------------------|--|----------------|

Add:

| | | |
|--|---------------|--|
| Net Profit for Year Ended December 31, 1947..... | \$ 496,605.60 | |
|--|---------------|--|

| | | |
|--|----------|------------|
| Adjustment of 1946 Federal Income Tax Accrual..... | 1,117.15 | 497,722.75 |
|--|----------|------------|

| | | |
|--|--|-----------------------|
| | | <u>\$2,625,863.58</u> |
|--|--|-----------------------|

Deduct:

| | | |
|--|-------------|--|
| Dividends Paid on Preferred Stock..... | \$ 9,678.00 | |
|--|-------------|--|

| | | |
|-------------------------------------|------------|------------|
| Dividends Paid on Common Stock..... | 227,426.00 | 237,104.00 |
|-------------------------------------|------------|------------|

| | | |
|---------------------------------|--|------------------------------|
| Balance, December 31, 1947..... | | <u><u>\$2,388,759.58</u></u> |
|---------------------------------|--|------------------------------|

Capital Surplus:

| | | |
|--|--|-----------------------------|
| Balance, December 31, 1947 (No change during year) | | <u><u>\$ 130,316.37</u></u> |
|--|--|-----------------------------|

ACCOUNTANTS' CERTIFICATE

To the Stockholders of The Baldwin Company:

We have examined the consolidated balance sheet of THE BALDWIN COMPANY and its subsidiary as of December 31, 1947, and the consolidated statements of income and surplus for the year then ended; have reviewed the accounting procedures and the system of internal control of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records and other evidence in support of such financial statements. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all auditing procedures we considered necessary, which procedures were applied by tests to the extent we deemed appropriate in view of the system of internal control.

In our opinion, the accompanying consolidated balance sheet and related statement of consolidated surplus present fairly the position of THE BALDWIN COMPANY and its subsidiary at December 31, 1947, and the results of their consolidated operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

MURPHY, LANIER & QUINN,
Public Accountants

CINCINNATI, OHIO

March 24, 1948

PRINCIPAL SELLING
OFFICES

Cincinnati
Denver
Pittsburgh
Los Angeles

New York
Louisville
Chicago

Boston
St. Louis
Kansas City
San Francisco

EXPORT OFFICES

New York

Cincinnati

San Francisco

PRODUCTS

BALDWIN

Grand Pianos
Electronic Organs

HAMILTON

Grand and Upright Pianos

HOWARD

Grand and Upright Pianos

ACROSONIC

Spinet-Upright Pianos